

Message Text

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67

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 SCEM-02 NEA-10 INT-08 AID-20

EB-11 CIEP-02 STR-08 OMB-01 CEA-02 COME-00 FRB-02

XMB-07 OPIC-12 LAB-06 SIL-01 DRC-01 /240 W

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R 131833Z NOV 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5550

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

UFNPS/USMISSION OECD PARIS 0494

TREASURY DEPT WASHDC

C O N F I D E N T I A L LONDON 13289

DEPARTMENT ALSO PASS FRB

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: BANK OF ENGLAND VIEWS ON U.K. ECONOMY

BEGIN SUMMARY. SENIOR CONTACT AT BANK OF ENGLAND
(BOE) REPORTS THERE IS CONTINUING DISCUSSION WITHIN
GOVERNMENT ON NEED TO RESTRAIN ECONOMY. CONTACT FELT
SOME FORM OF "STOP" MAY BE FORTHCOMING, ALBEIT IN
INDIRECT OR DISGUISED MANNER. END SUMMARY.

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1. CHRISTOPHER DOW, A DIRECTOR OF THE BANK OF ENGLAND

TOLD TREASURY

REPRESENTATIVE THERE IS CONTINUING DISCUSSION WITHIN GOVERNMENT ON THE NEED TO FURTHER RESTRAIN THE U.K. ECONOMY. ACCORDING TO DOW, THOSE ARGUING AGAINST RESTRAINT ARE PUTTING UP A LAST-DITCH BATTLE. IN EFFECT, BOE IS ARGUING THAT CURRENT SLOWDOWN IN THE ECONOMY HAS NOT COME BECAUSE OF ANY APPRECIABLE SLACKENING OF OVERALL DEMAND, BUT RATHER BECAUSE OF LIMITATIONS ON SUPPLY OF RAW MATERIALS, LABOR AND INDUSTRIAL CAPACITY.

2. ONE CAUSE OF CURRENT OVERHEATING LIES IN THE GOVERNMENT'S EARLIER POLICIES (1971-1972) WHICH AIMED AT STIMULATING THE ECONOMY THROUGH CONSUMER EXPENDITURE. THESE POLICIES WENT TOO FAR. THEY HAVE SINCE BEEN MITIGATED WITH CHANGE IN DIRECTION AIMED AT EYPO
T A D

INVESTMENT LED GROWTH. BANK CONSIDERS THAT DEMAND NEEDS TO BE FURTHER RESTRAINED IN CONSUMER AND PUBLIC SECTORS. IN CURRENT POLITICAL CLIMATE, WITH AN ELECTION DUE BY SUMMER 1975, IT WILL BE HARD FOR GOVERNMENT TO INTRODUCE ADDITIONAL RESTRAINT. IF DECISION IS TAKEN TO CUT BACK, ONE PROBLEM WILL BE TO DO SO IN LESS OBVIOUS WAYS AND WITH A MINIMUM OF FANFARE, DOWNPLAYING EFFECT OF MEASURES THAT MIGHT BE TAKEN.

3. DOW FURTHER INDICATED THAT IF PRESENT GOVERNMENT HAS HAD SOME DIFFICULTIES, THESE WILL PROBABLY APPEAR SMALL COMPARED TO EFFECT OF MEASURES THAT MIGHT BE TAKEN BY A NEW LABOR GOVERNMENT, BASED ON STATEMENTS MADE RECENTLY DURING LABOR PARTY CONFERENCE. STERLING WOULD WEAKEN IF IT APPEARED LABOR MIGHT WIN THE NEXT ELECTION. SOURCE WAS PESSIMISTIC ABOUT ENGLAND'S SHORT AND MEDIUM-TERM ECONOMIC PROSPECTS GIVEN THE HISTORIC DIFFICULTIES (I.E., CLASS DIVISIONS, LABOR-MANAGEMENT ANTIPATHY AND POOR STATE OF INDUSTRIAL RELATIONS).

4. BALANCE OF PAYMENTS SITUATION WAS NOT GOOD BEFORE THE MIDDLE EAST DEVELOPMENTS. CURRENT ENERGY CRISIS EXPECTED TO ADD OVER 400 MILLION POUNDS ADDITIONAL
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EXPENSE TO U.K. IMPORT BILL, NECESSITATING EVEN GREATER BORROWING THAN WOULD OTHERWISE HAVE BEEN UNDERTAKEN IN INTERNATIONAL MARKETS. IN REPLY TO QUESTION, SOURCE INDICATED THAT IMPORT SUBSTITUTION EFFECTS OF NORTH SEA OIL COULD HELP MITIGATE INTERNATIONAL REPAYMENT DIFFICULTIES IN LONGER TERM.

5. OIL PRICE INCREASES WILL PROBABLY ADD ONE-HALF TO

ONE PERCENT TO RETAIL PRICE INDEX, MAKE OPERATION OF
STAGE III OF PROGRAM TO CONTROL INFLATION THAT MUCH
MORE DIFFICULT. BANK ESTIMATES THRESHHOLD AGREE-
MENTS IN
STAGE III WILL BE TRIGGERED AT LEAST TWICE NEXT YEAR,
I.E., THAT RETAIL PRICE INDEX WILL INCREASE BY OVER NINE
PERCENT FROM INTRODUCTION OF STAGE III IN NOVEMBER 1973.

6. ABOVE VIEWS WERE OBTAINED FROM DOW IN CON-
FIDENCE. IT IS IMPORTANT THAT SOURCE NOT BE IDENTIFIED
NOR SHOULD SUBSTANCE OF CONVERSATION BE REPEATED TO DOW
BY U.S. DELEGATION ATTENDING OECD MEETINGS.

ANNENBERG

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30 JUN 2005

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